BS 350-2A 9/27/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 26, 1983 VOLUME XX, NUMBER 34

The Fears Of A New Bout Of Inflation . . .

The Commerce Department's "flash" report estimating that real gross national product growth in the third quarter is tapering off from its torrid second-quarter pace should diminish widespread fears that the ongoing recovery will set off a renewed bout of inflation. Commerce estimates that inflation-adjusted GNP advanced at a seasonally adjusted seven percent annual rate in the third quarter, compared with the upward-revised 9.7 percent second-quarter pace. At the same time, the implicit price deflator, the broadest measure of inflation, is believed to be rising at a seasonally adjusted 3.2 percent annual rate in the current quarter, about the same as the 3.3 percent clip of the second quarter. And, the Labor Department reported Friday that there was little change in the rate of consumer price inflation in August, compared with the past few months.

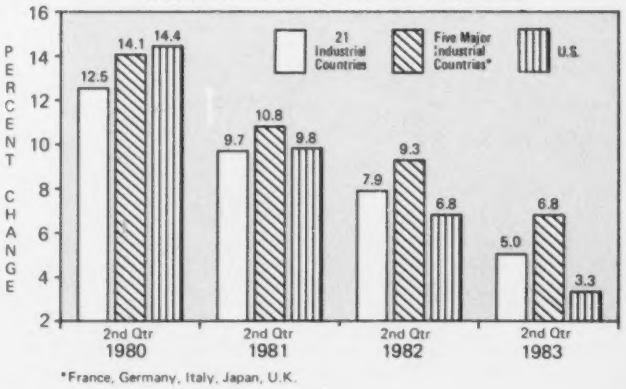
Those who worry about a resurgence of inflation offer several reasons. First, the inflation rate has ratcheted steadily higher over most of the business cycles of the postwar era as a result of increasingly expansionary fiscal policies and the ensuing budget deficits that such policies produced. A second source of concern is the strong growth of money and credit aggregates over much of the past year. Many economists believe that rapid money supply growth is often followed by periods of sharp increases in prices. Still more disturbing evidence comes from the recent escalation of spot commodity prices. Sharp increases in commodity prices usually presage an upsurge in wholesale and consumer prices. Thus, the 20 percent increase in commodity prices since November, 1982, bears watching.

. . . May Be Premature . . .

While it is true that rising inflation rates have eventually accompanied economic growth during most postwar recoveries, past experience also suggests that inflation continues to moderate for at least 12 months after the end of a recession, before turning upward during the second year of a recovery. While the monetarist economists, for example, would argue that the rapid growth in the money supply this year has already set the stage for a significant rise in inflation, they also acknowledge that there is a lag of one to two years between a surge in money growth and a resurgence of inflation.

The upward pressures on spot commodity prices have already led to higher food prices at both producer and consumer levels. Wholesale farm product prices jumped 3.8 percent in August, month-over-month, after declining in the previous three months. Consumers may have already begun to see the results of these developments in the supermarket, witness the 0.2 percent rise in retail food prices in August—the first monthly rise since May. However, the full price effects of reduced harvests resulting from the payment-in-kind program and the drought are not expected until 1984.

CONSUMER PRICE INDEX FOR SELECTED COUNTRIES
(PERCENT CHANGES FROM A YEAR AGO)



*France, Germany, Italy, Japan, U.K.

Perhaps the most important reason for expecting that near-term inflation rates will remain modest is the dramatic slowdown in wage increases and the typical post-recession pattern of productivity. For just as recession yields substantial inflation benefits, so, too, does recovery. This is because productivity usually increases faster in the early stages of recovery, slowing the rise in unit labor costs.

Copyright 1983
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

The prolonged 1981-82 recession, with its record 12 million laid-off workers, and the highest business bankruptcy rate since the Great Depression, as well as strong pressures from foreign competition, tamed labor's demand for high wage increases—a major factor in earlier periods of high inflation. As a result, wage hikes for workers covered by major collective bargaining agreements settled in first-half 1983 were the lowest in 15 years. Pay increases averaged 0.9 percent for the first year of the contract and 2.7 percent a year for its duration. This compares with the average wage adjustment of 8.4 percent in the first contract year and 6.7 percent a year over the life of the contract that the same parties had negotiated during their previous bargaining. When this moderation is combined with the recent jump in nonfarm productivity, it produces a decline in unit labor costs—the first since 1975.

The strong dollar is also helping to keep inflation subdued. It has encouraged more lower-priced imports and has increased the pressures from foreign competition on domestic producers to become more cost-efficient.

. . . Both Here And Abroad

The inflation rate has slowed dramatically elsewhere as well. In the industrial nations, inflation has been restrained by anti-inflationary monetary policies and global recession. Consumer prices reached their recent high point in the industrial countries in the second quarter of 1980, rising 12.5 percent over the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/14/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.472	– .663	+13.226
Loans to Depository Inst.	1.148	– .099	– .182
Float	1.572	+ .602	– .720
Total Reserve Bank Credit	163.937	+ .079	+10.893
Treasury Deposits with Federal Reserve Banks	3.438	+ .024	– .030
Currency Outside Banks	145.106	+ .292	+12.598
Member Bank Reserves:			
Required	36.711	– .178	– 2.524
Excess (Deficiency)	.354	– .444	+ .034
Total Reserves Held	37.065	– .622	– 2.490
Net Borrowed Reserves	.108	+ .340	– .697
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.055	+ 2.007	+11.664

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	515.4	+ 3.8‡	+ 11.8‡
M2 (August '83)	2,136.3	+ 7.7	+ 12.2
M3 (August '83)	2,527.9	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 9/23/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.85%	8.90%	9.05%
* Federal Agencies	9.10	9.40	10.25
* Project Notes—Taxfree (46% Taxable Equivalent)	9.35	9.90	10.55
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.30	9.50	10.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Oct.	9.25%
15- 29 days	9.00	Nov.	9.25
30- 59 days	9.00	Dec.	9.20
60- 89 days	9.00	Jan.	9.20
90-179 days	9.00	Feb.	9.20
180-239 days	9.00	Mar.	9.15
240-270 days	9.00		

‡Industrial Paper—Prime			
30- 89 days	9.13%	†Federal Funds Effective Rate	9.15%
90-120 days	9.13		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272r	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525r	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7r	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83n	4.8%	4.8%	3.6%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force†	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Aug '83n	$ 2,755	$ 2,749r	$ 2,587
Leading Indicators Composite Index (1967=100)†	Jul '83	157.7	157.2	136.2
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Jul '83	–$ 6.36	–$ 4.96	–$ 2.70
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83n	1,935	1,785r	1,046
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

same quarter of the previous year. Since then, there has been a steady downward trend; consumer prices in the second quarter of this year were only five percent higher than in the same period of 1982 (see chart on page 1). This was the lowest inflation rate for any quarter since the fourth quarter of 1972—before the first sharp escalation of oil prices.

The most impressive slowing of inflation took place in the United Kingdom. In the second quarter of 1980, consumer prices were 21.5 percent above the levels of the second quarter in 1979. Three years later, this was reduced to 3.8 percent above the same quarter of the previous year. Italy, by contrast, which had a 21 percent inflation rate in the second quarter of 1980, was only able to slow it down to about 16 percent by the second quarter of this year.

Although improvement in the war against inflation has been dramatic in almost all of the developed nations, inflation has not come down to a uniform rate. With the exception of the United Kingdom, the largest industrial countries have maintained their relative positions over the past several years. Thus, for example, Italy and France still have high inflation rates relative to Japan and Germany. Japan, with the lowest rate of consumer price increases among the major industrial nations, scored an enviable 2.2 percent price rise in the second quarter of 1983 when compared with the second quarter of 1982. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/7/83)	94,083	– 1,044	–53,164
New York City (9/7/83)	22,119	– 349	–17,531
Commercial Paper (9/7/83)	173,990	+ 1,601	+ 2,804*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/83)	214,098	+ 35	+ 453
New York City (9/7/83)	58,100	+ 70	– 1,790

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/83)	511,052	+ 585	+14,163
New York City (9/7/83)	117,264	– 572	– 412

Financial Markets

	Friday 9/23/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.12%	– .28	+ 1.18
180-Day Bills†	9.40	– .40	– .35
Longest Bills†	9.72	– .43	– .87
Recent Issues:			
10⅞s 9/30/85 (When Issued)	10.50	– .85	
11⅛s 9/30/87 (When Issued)	10.97	NA	
11⅞s 8/15/93	11.35	– .40	
12s 8/15/13	11.35	– .40	
Municipals:			
Bond Buyer–20 Bond Index* (9/22/83)	9.42%	– .20	– 1.16
Blue List Total ($ Million)	$1,109	+ $ 25	– $ 106
30-Day Visible Supply ($ Million)	$2,292	+ $331	– $ 326
Total	$3,401	+ $356	– $ 432
Corporates:			
Moody's Aa Composite (9/22/83)	12.55%	– .18	– .91
30-Day Visible Supply ($ Million)	$ 497	+ $ 90	– $1,012
Stocks:			
Dow-Jones Averages:			
Industrials	1,255.59	+ 29.88	+ 336.07
Transportation	584.42	+ 11.69	+ 214.82
Utilities	133.43	+ 1.54	+ 16.37
65 Stocks	499.40	+ 10.52	+ 141.26
Standard and Poor's 500 Stocks	169.51	+ 3.27	+ 46.19
N.Y.S.E. Composite Index	98.07	+ 1.90	+ 27.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,134	+12,598	+ 25,630

* 46% Taxable equivalent 17.44%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/23/83	Week Ago
Overnight	9.13%	9.63%
1 month	9.56	9.88
3 month	9.63	9.94
6 month	9.81	10.25
1 year	10.13	10.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.95%
Long Term (7 to 15 yrs.)	11.85	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/23/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01858	53.82
Canada	.8114	1.2324
Denmark	.1044	9.5825
France	.1241	8.0605
Germany	.3754	2.6640
Italy	.0006205	1611.50
Japan	.004151	240.93
Mexico	.006700	149.25
Netherlands	.3359	2.9770
Switzerland	.4632	2.1587
U.K.	1.4997	.6668

Manufacturers Hanover Trust Company
announces the formation
of:

THE MANUFACTURERS HANOVER INVESTMENT CORPORATION

600 Fifth Avenue,
New York, New York 10020

MANUFACTURERS HANOVER TRUST COMPANY

September 20, 1983

The Manufacturers Hanover Financial Digest
Bank Window, Church St. Station
New York, New York 10015